Call for investors to put money toward a green future; There's lots of nuance when you fight climate change through markets

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Byline: Paul Sullivan The New York Times

Body

Climate change has been a key theme this week at the World Economic Forum in Davos, Switzerland, with big ideas being bandied about and big-picture proposals being announced.

A Davos initiative to plant one trillion trees gained the support of President Donald Trump and the United States, a pledge that was met with a rebuke by the young climate activist Greta Thunberg. She said it simply wasn't enough, given the rate at which the Earth is warming and forests are being decimated by wildfires.

The winds are shifting. BlackRock, the world's largest asset manager, has set environmental sustainability as a core goal.

For giant money managers like BlackRock and the wealthy Davos men and women, as well as people from slightly less rarefied air, targeted investing is one direct route to begin to force change on carbon-emitting companies.

A new paper, Hedging Climate Change News, from a group of professors at New York University's Stern School of Business and Yale's School of Management concluded that creating the best portfolio to mitigate climate change required investors to put money into green strategies, but also into existing nongreen companies.

Some of the investments will have to go into companies with high carbon footprints, but a strategy to move toward a more sustainable business model.

"If you think about the question of how do we hedge against climate change risk, it's natural to think the easiest thing to do is to go long green and short brown companies," said Stefano Giglio, professor of finance at Yale.

"What we found when we tried to aggregate all the information was the optimal portfolio that hedges climate risk is not a long-short bet on green," he said. "It's much more nuanced. You want to go into each industry and look at the firms that are the most and least exposed to climate change."

To investors and advisers working with people's savings, that approach is as nuanced as it is complex.

Some investors with a green focus have been too doctrinaire, which could make this approach challenging, said Rusty Vanneman, chief investment officer of Orion Advisor Solutions, which manages about $17 billion.

"You could have two people in the same room who agree about the details of climate change investing, but then they start fighting over the nuance," he said. "Or let's say the average company has a green score of 50. People don't want to invest in a company with a score of 55. And they get angry and say, 'I'm not going to invest if I can't get 95 or 100.'"

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